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Russian Federation

Agricultural Situation

Government Fixed Diesel Fuel and Gas Prices for Farmers

2009

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Report Highlights:

The Russian Government has reported on the agreement with Russian oil companies that in spring 2009 these companies will sell diesel fuel and low grade gasoline to farmers at fixed prices. Prices are fixed at the January 15, 2009 level: 13,823 RUR (\$395) per metric ton of diesel fuel and 12,589 RUR (\$360) per metric ton for gasoline. There is no mechanism for control over implementation of this agreement. Media reports that in order to provide for the "uniform channel of fuel supply" and to eliminate middlemen, the Government plans to create a special fuel purchasing unit at Rosselkhozbank

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Moscow [RS1]
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Summary

One of Yelena Skrynnik's, the new Agriculture Minister's, priorities is the stabilization of the farmers' fuel supply for their spring work. In the end of 2008, the federal government allocated 28 billion rubles (\$800 million) for compensation farmers' expenses for fuel and lubricants, feeds and fertilizer. These subsidies were supposed to reach farmers through the provincial budgets by spring 2009. However, as of the beginning of March, the fuel subsidies have not reached farmers, although in some southern provinces of European Russia farmers will start spring planting in mid March. Moreover, Russia's fuel market prices began to increase in February. As Russia's Prime Minister Putin mentioned at the meeting of the Presidium of the Russian Government on March 5, 2009, in February suppliers of fuel and lubricant increased wholesale prices of gasoline by 17.6 percent, and diesel fuel – by 20.2 percent over January prices.

In rural areas, and sometime in the whole province only one oil company sells fuel to farmers. In absence of market competition the Russian government is aiming to fix fuel prices for farmers and to create a centralized distribution body. Fixing of fuel prices for farmers is supposed on the basis of the unwritten agreements with fuel producers. At the meeting with President Medvedev on March 12, 2009, the Deputy Prime Minister Igor Sechin, who covers oil sector, reported on the agreement with Russian oil companies that in spring 2009 these companies will sell diesel fuel and low grade gasoline to farmers at fixed prices. Prices are fixed at the January 15, 2009 level: 13,823 RUR (\$395)¹ per metric ton of diesel fuel and 12,589 RUR (\$360) per metric ton for gasoline. Media report that in order to eliminate middlemen and provide for the "uniform channel of fuel supply" to farmers, the Government plans to create a special fuel unit at Rosselkhozbank, and this unit will purchase fuel from oil companies, and will sell it to farmers. Minister of Agriculture Yelena Skrynnik at her first press briefing held on March 13, 2009, confirmed that fuel-for-farmers price control will be one of the priorities of the Ministry of Agriculture and the Government, and that they work on the creation of a company which will supply fuel and lubricants to farmers on a centralized basis.

There is no mechanism for control over implementation of the price fixing agreement yet. Oil companies refused to comment on this agreement, but the media reported that if the Government pre-pays for the delivery of fuel to farmers, then, in the conditions of liquidity crisis, guaranteed payments at lower than market price will be better for these companies than high prices without payment guarantees. Federal Government and some provincial government also have administrative tools to persuade oil companies to decrease fuel prices for farmers. However, given that the fixed-priced fuel will be distributed under government control, the dependency of the farmers themselves on the local and provincial government will inevitably increase. According to mass media, farmers support the idea of fixed prices, although some big holdings and better-off farmers have purchased fuel for spring works in January, when prices were relatively low.

Ministry of Agriculture together with provincial government and Ministry of economic development calculated that in 2009 Russian farmers will need 5.45 million metric tons (MMT) of diesel fuel and 2.02 MMT of gasoline, and farmers' expenses on this gas and fuel will reach 137.8 billion rubles (\$3.94 billion). This spring diesel fuel requirements are estimated at 1.5 MMT, and in gasoline – at 0.5 MMT.

¹ The exchange rate is approximately 35 Rubles per 1\$US.